



S.S. Steiner, Inc.

Hopsteiner

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Your Honor, members of USDA, fellow members of the hop industry, thank you for the opportunity to comment at this hearing.

I have been involved in the hop industry for close to 20 years. I have found the hop industry to be highly competitive and continuously evolving during this period. Over the last several days you've heard about many of the changes taking place in our industry including consolidation of breweries, consolidation of growers, development of higher yielding hops with higher alpha acid contents and development of new, more efficient hop products. All of these developments are natural consequences of the free market in which we operate.

Hopsteiner is a hop grower, processor and merchant. Our farming subsidiary Golden Gate Hop Ranches, Inc. farms approximately 1,500 acres of hops in the Yakima Valley of Washington State.

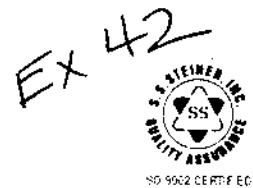
US alpha hops compete in the international market. In making sales to large international breweries we are constantly competing against low cost sources of alpha hops from other producing areas. The United States has been able to compete on the world market by having a high degree of flexibility in instituting innovations and reducing costs of production. Unfortunately, the innovations and changes in the brewing industry have resulted in a declining requirement for alpha hops and a corresponding reduction of the production base.

The hop marketing order ("HMO") as currently proposed is negative for the US hop industry for many reasons, some of which follow:

1. It will cause US hops to be less competitive.

- The HMO's purpose is to artificially restrict supply and thereby raise prices.

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- It will add to our cost structure both by the imposition of fees to operate it and the need for some producers to increase their costs by purchasing artificially created base allotment.
- It will especially hurt the alpha hop market since the cost of alpha base allotment will have a greater relative impact on alpha varieties v. aroma hops.
- It will reduce US growers' flexibility by burdening them with government regulation.

2. It will create inequities and inefficiencies.

- The proposed Representative Base Period begins in 1997. The potential exists for an initial base allotment to be close to 30% greater than 2002 hop production.
- The proposal allocates 10% alpha to all hop varieties which in actuality are less than 10% alpha acid. Future salable calculations will not be based on this factor but will use an alpha acid factor in line with actual alpha acid content of these varieties, some of which are as low as 3% or 4%.
- A third provision that inflates the initial base allotment is the use of so-called "actual" alpha acid contents for determining past year's alpha acid production. No one laboratory analyzes all US hops and in spite of the industry's best efforts there always remain differences from laboratory to laboratory and hop sample to hop sample. You may be aware of the statements made by the distinguished hop chemist Verzele and his co-authors, "We now believe that precise alpha-acids analysis in hops is impossible. It is most imperative that all parties involved in hop transactions become aware of this fact."¹
- Under the proposed HMO those producers with excess base allotment will financially gain from the sale of that base allotment to their neighbors who do not receive enough base under the proposed formula.

3. The proposal interferes with contractual obligations and breaches buyer-seller confidentiality.

- Under the proposed HMO the potential exists for growers to not deliver their contractual obligations because of being issued insufficient base. Voiding of contracts would be a strong signal the proposal sends to all brewers to move away from US hops.
- Granting a committee of producers far-reaching authority to receive information and investigate all hop market transactions is unacceptable to our customers.
- The potential for a marketing order under which contracts can be both investigated and voided gives brewers a dis-incentive for contracting US hops.

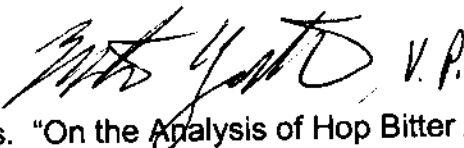
In closing, we believe the proposed HMO will hurt the US hop industry. It will increase the cost of US hops relative to hops produced in other areas of the world. It will reduce the US's share of the world market. It will impede and inhibit

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innovation. Finally, it will unfairly reward declining producers at the expense of stable or growing producers. We respectfully suggest that the process should be ended as quickly as possible in order to limit further negative impact on the workings of the free market.

Thank you for your attention.

A handwritten signature in dark ink, appearing to read "J.J. Steiner, Inc.", with a stylized flourish at the end.

¹ Verzele, Van Dyck and Claus. "On the Analysis of Hop Bitter Acid". J Inst Brew 86:9-14, 1980.